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# KraneShares

## Navigating the Dragon's Den: China's Market Trends and Consumer Rebound

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As with all investments, your capital is at risk



# Navigating the Dragon's Den: China's Market Trends and Consumer Rebound



**Dr. Xiaolin Chen**  
KraneShares  
Head of International

For Intended Audience Only.



# Introduction to KraneShares

## About KraneShares

Krane Funds Advisors, LLC is the investment manager for KraneShares ETFs. Krane Funds Advisors, LLC, is a signatory of the United Nations-supported Principles for Responsible Investing (UN PRI).

In 2018, KraneShares established operations in the United Kingdom (UK) and Europe to better deliver its renowned China-focused ETFs to investors in the region.

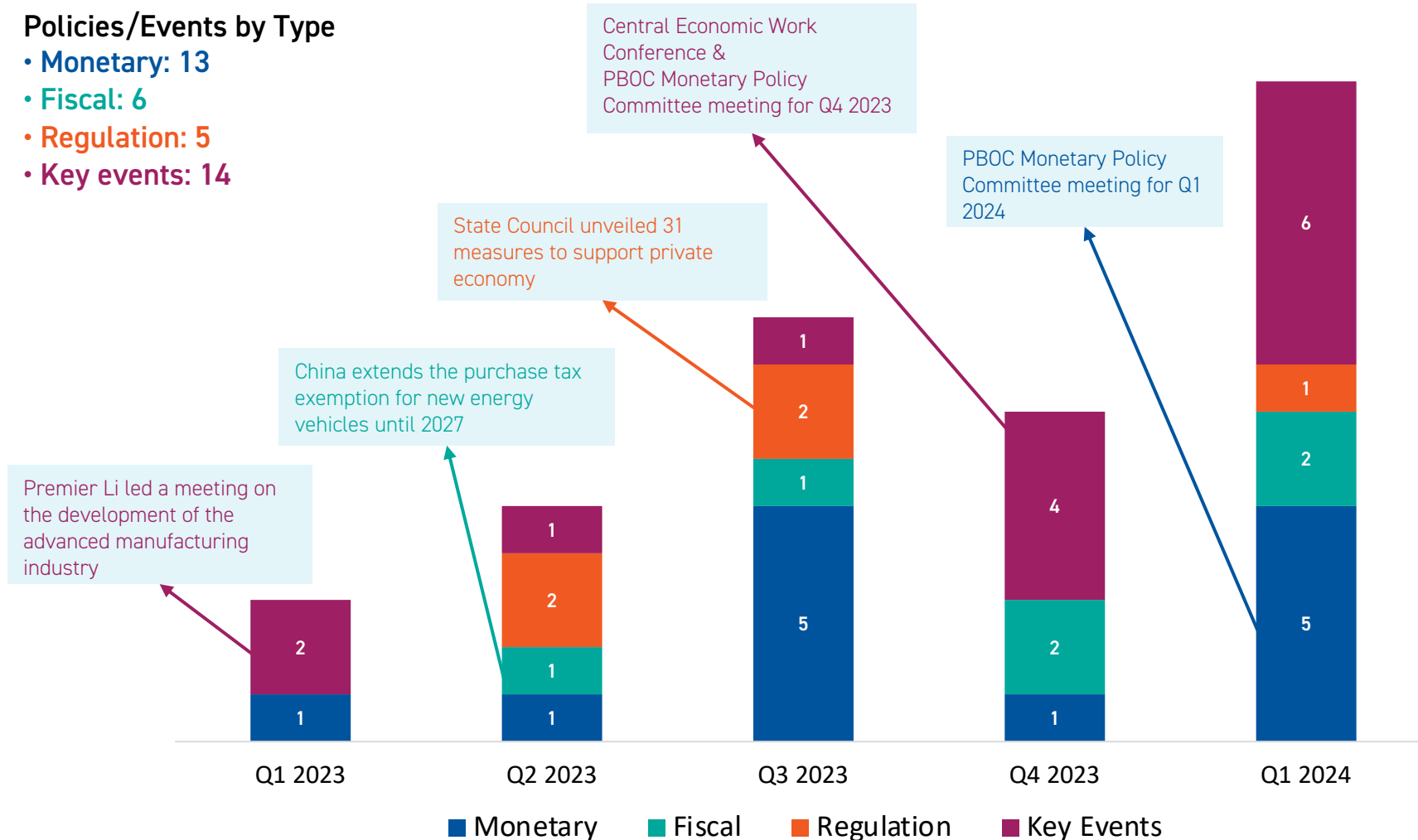
The firm is majority-owned by China International Capital Corporation (CICC).



## China introduced an unprecedented level of pro-market policies in 2023 and continues to do so in 2024

### Policies/Events by Type

- **Monetary:** 13
- **Fiscal:** 6
- **Regulation:** 5
- **Key events:** 14



### Recent & Upcoming in 2024

#### April:

- President Biden and President Xi Phone Conversation on April 2<sup>nd</sup> - Discussed "San Francisco Vision"
- US Treasury Secretary Yellen visit to China
- Politburo Meetings

#### Summer:

- Beidaihe Meeting

#### September/October:

- 4<sup>th</sup> Plenum of The 20<sup>th</sup> Central Plenum of the 20<sup>th</sup> Central Committee of the Chinese Communist Party (CCP)

#### December:

- Central Economic Work Conference (CEWC)

## Two Sessions meetings in March

### Key Takeaways

1. Leadership of China, including President Xi Jinping, demonstrated a keen awareness of the challenges facing China's economic recovery and expressed a strong commitment to supporting sustained growth
2. Economic objectives outlined during the NPC, which consider a range of domestic and international quantitative and qualitative factors for the current year, reflect a prudent and realistic approach to future planning.
3. Emphasis on new productive forces throughout the NPC, which garnered significant media coverage, signals the areas deemed pivotal for China's future economic expansion.
4. Focus on sectors where China is ascending the export value chain and leading in urbanization and industrialization initiatives, including smart electric vehicles, renewable and clean energy, and a more advanced consumption ecosystem, underscores their role as integral drivers of economic growth.

Major Economic Target	2024 NPC
Gross Domestic Product (GDP) growth (% YoY)	~ 5%
Consumer Price Index (CPI) inflation (% YoY)	~ 3%
Unemployment rate (%)	~ 5.5%
New employment (in Million)	> 12 million
Fiscal deficit ratio (% of GDP)	3%
Local government special bond (LGSB) quota (RMB tn)	3.9 RMB tn
Central government special bond (CGSB) quota (RMB tn)	1 RMB tn

## Xiaolin's trip to China

### Client Feedback

- Onshore investors expressed growing confidence in China's new leadership and their intention for economic expansion
- There is a prevailing perception among local investors that Chinese regulators are actively establishing a pro-market framework to stabilize the market
- One executive at China's largest bank commented: "Three years ago, there was concern over whether Chinese policymakers would take action to support the market. Now, the concern has shifted to whether their clients are adequately positioned to capitalize on the potential rally."

### Regulator CSRC Perspective

- In the meeting with the China Securities Regulatory Commission (CSRC), the initial question asked was "How can we help investors?"
- This question indicated an open and constructive attitude from the CSRC towards addressing the concerns of global investors

### Firsthand Observations from Dr. Xiaolin Chen

- Dr. Chen's visit to Beijing and series of meetings underscored a notable shift in sentiment among onshore investors, with growing confidence in China's new leadership and their intention for economic expansion



## Top 7 checklist on China's capital markets

Concern Level  
 High     Low

Factors		2023	2024	Comments
Macro	Economic Growth	5.2%	5% +	China's GDP recorded a 5.2% yoy growth in 2023, reaching a total of RMB 126 trillion, on track in delivering the 5% yoy growth target for the next decade in achieving the national development goal. <sup>1</sup>
	Macro Policy	PRO-Growth	Stay Accommodative	Both Monetary and Fiscal policies have been accommodating in 2023 and we expect this stance to continue. The effectiveness in guiding the liquidity into the system is the key.
	Regulations & Geopolitics	On Watch	On watch	One of the biggest election years in history will result in changes in leadership and counterpart engagement dynamics but with limited downside.
Market	Liquidity	High	Extremely High	Policymakers announced Trillions of RMB in Funding to provide market stabilization and liquidity for demand and supply sides.
	Valuations	Low	Revising up	China's tech sector is at -40% lower P/E vs its US peers and majority Chinese stocks are attractively valued globally at their decade-low levels. <sup>2</sup>
	Company Fundamentals	Regaining Momentum	Improving	Led by industry leaders particularly in the e-commerce space with more evident results in international expansion.
	Investors Sentiment	Low	Improving (slowly)	Global mutual funds and hedge funds are at historically low level of allocation to China. But investors are reassured with the National Team buying and improving data points. <sup>1</sup>

1. Data from Bloomberg as of 4/10/2024.

2. Data from FactSet as of 3/31/2024

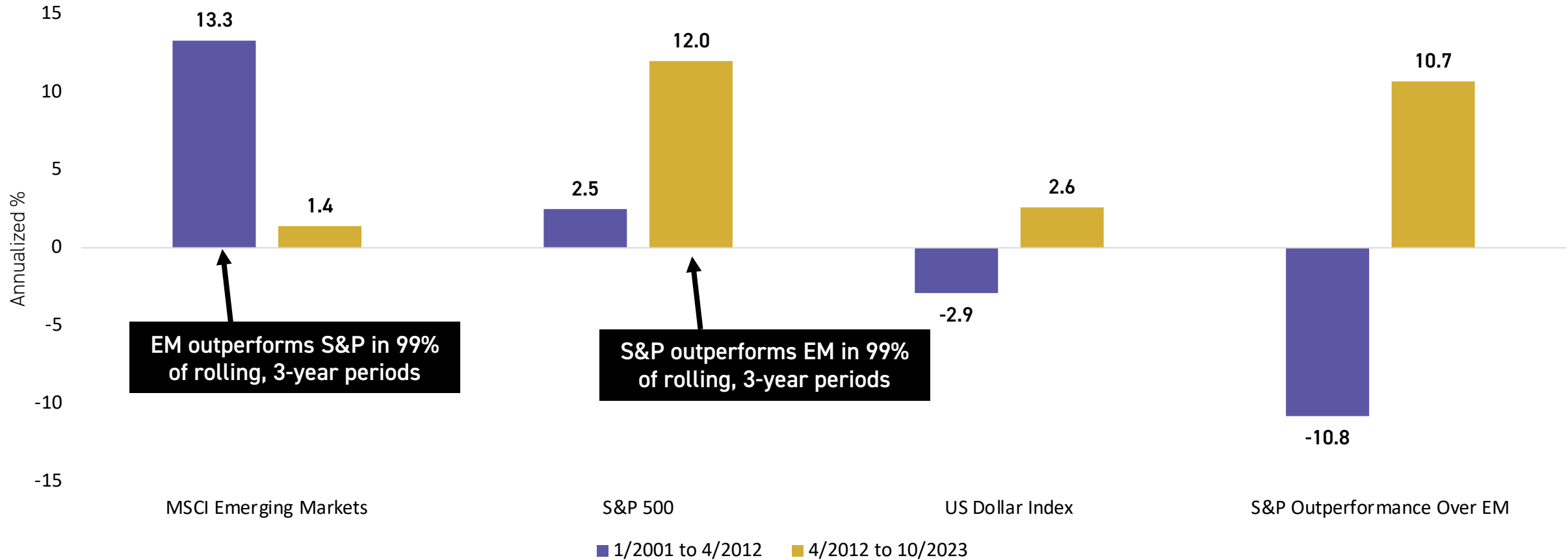
Please see the end of the presentation for definitions.



## The next decade might not look like the last, but it might look like the decade before the last

The past 12 years and the decade before that are mirror images when it comes to the performance of EM and US Large Caps.

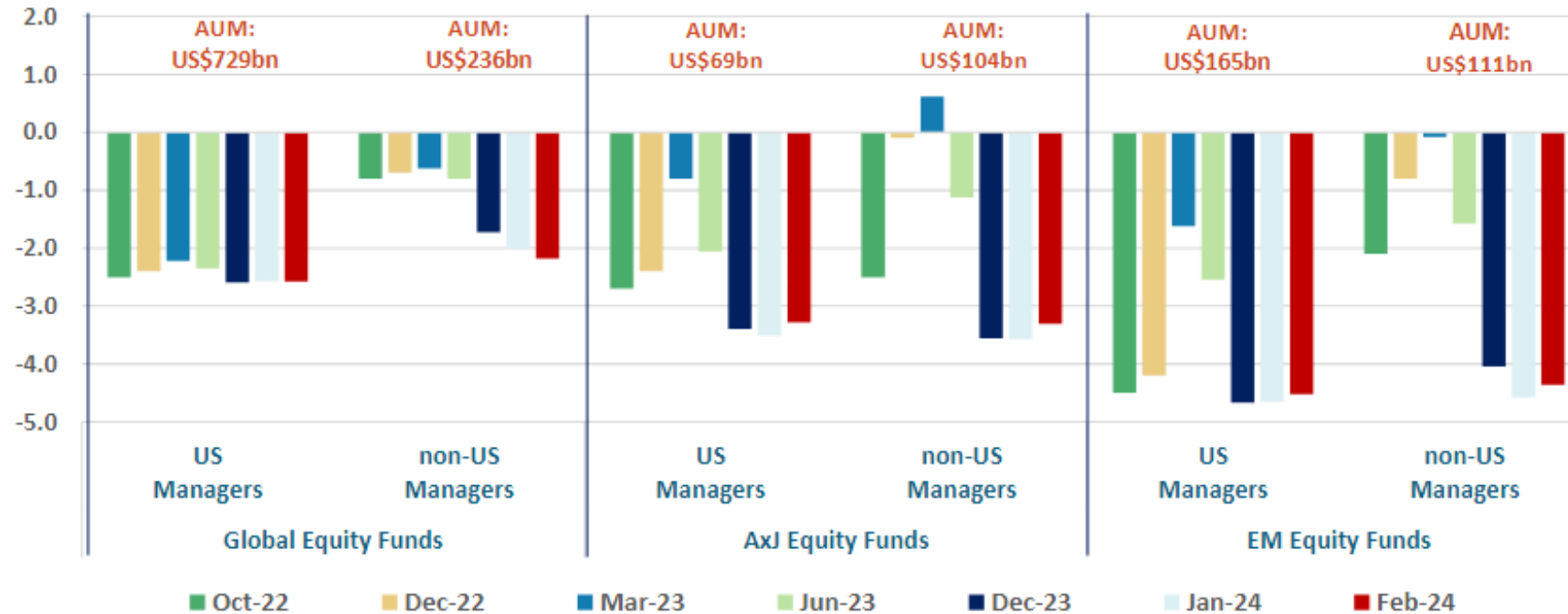
**EM vs. US Large Caps & US Dollar - Returns By Decade**



Data from Bloomberg. Index returns are for illustrative purposes only. Indexes are unmanaged and one cannot invest directly in an index. Index returns do not reflect fees or other costs associated with investing. Past performance does not guarantee future results. Please see the end of the presentation for definitions. The above data is based on monthly returns.

## US & Global investors are currently underweight China compared to relevant benchmarks from MSCI

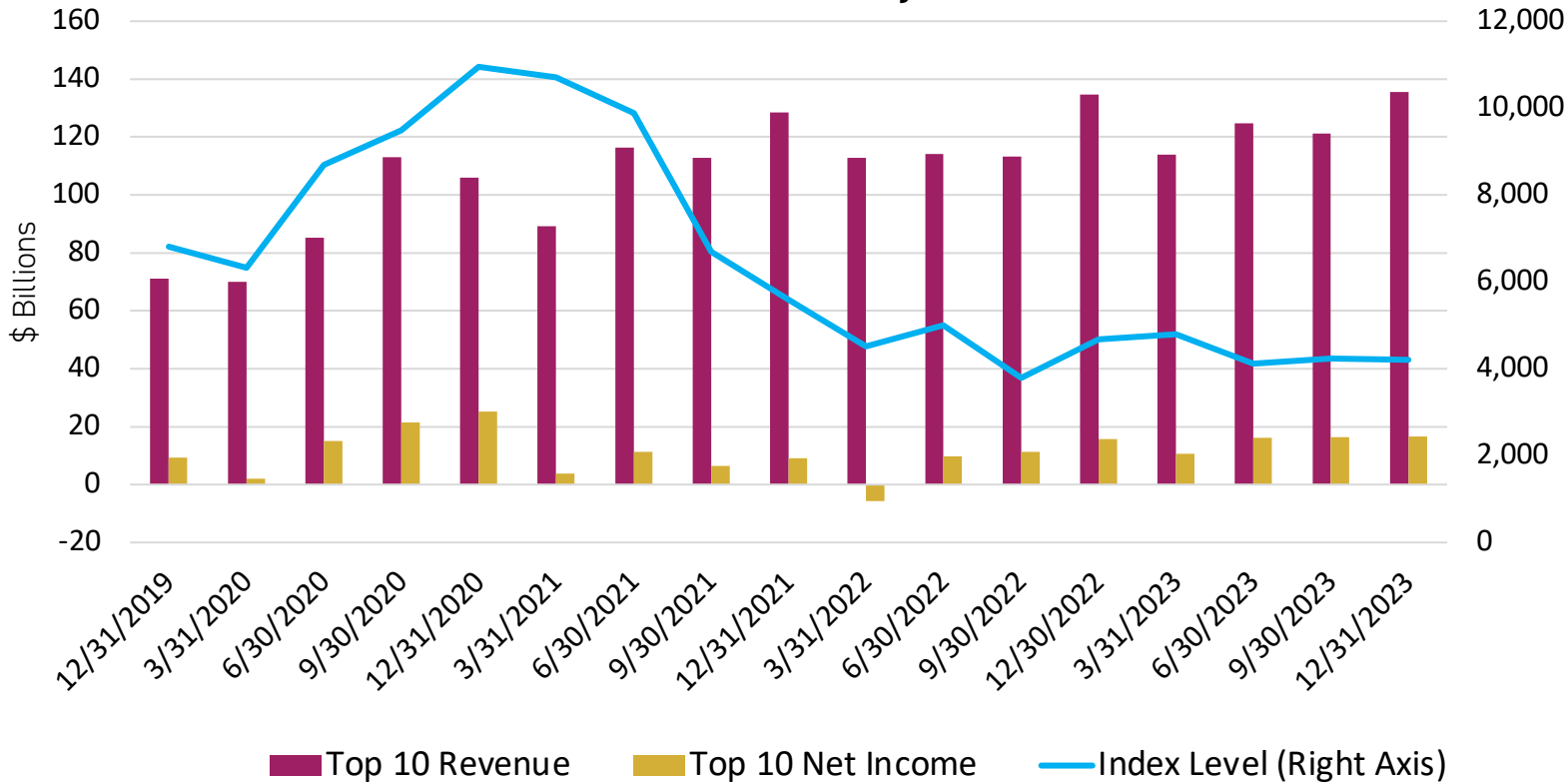
- According to Copley Fund Research as of January 31, 2024, 340 global equity mutual funds managing \$1 trillion AUM now have the lowest allocation to China ever.<sup>1</sup>
- As of February 29, 2024, MSCI Canada has a larger weight than MSCI China<sup>2</sup> in MSCI All Country World Index despite Canada's 2022 GDP was \$2.1 trillion versus China's \$17.9 trillion according to the World Bank<sup>3</sup>.
- Investors re-entering the space could be a catalyst for China equities.



Source: <sup>1</sup>Copley Fund Research as of January 31, 2024, <sup>2</sup>MSCI as of February 29, 2024, <sup>3</sup>World Bank data as of Year End 2022, Chart from Morgan Stanley China Quantitative Strategy March 4, 2024

## Valuations in China's Internet Sector, a top global growth theme, are the most attractive they have been in years

### CSI Overseas China Internet Index Level vs. Top 10 Revenue & Net Income (Quarterly)



### Price to Earnings (P/E) Ratio

**18.1x**  
CSI Overseas China Internet Index

**31.6x**  
Dow Jones US Internet Composite Index

Data from FactSet as of 3/31/2024.

One could purchase all the companies in CSI Overseas China Internet Index with the market capitalization of Amazon and still have \$700 billion+ left over



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CSI Overseas  
China Internet  
Index Companies

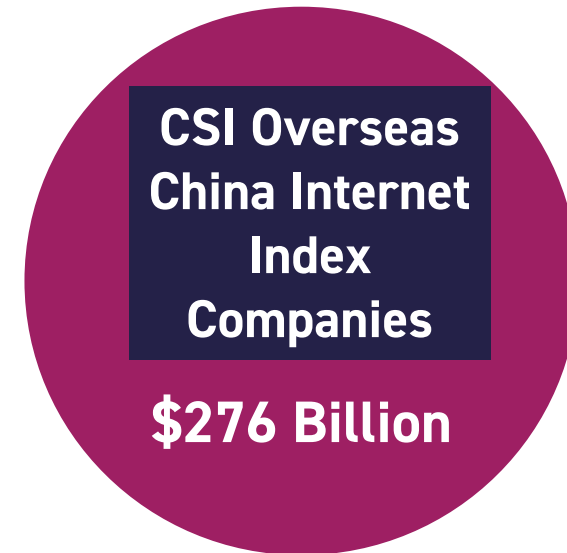
+

\$760 Billion

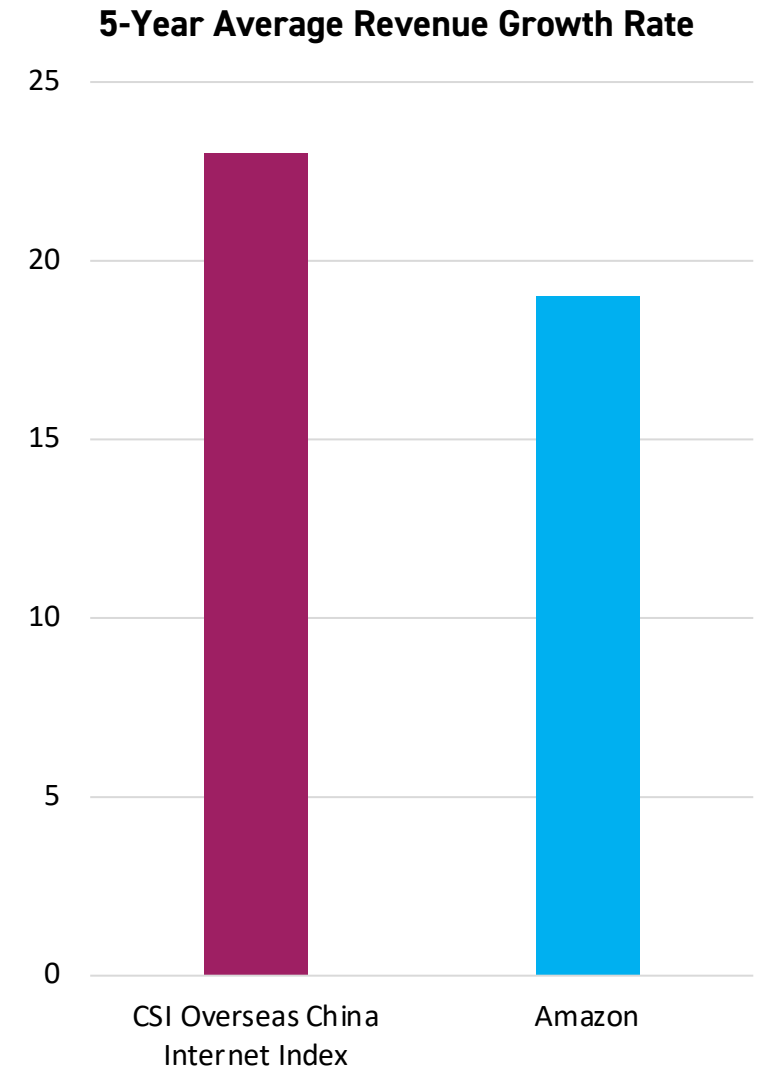
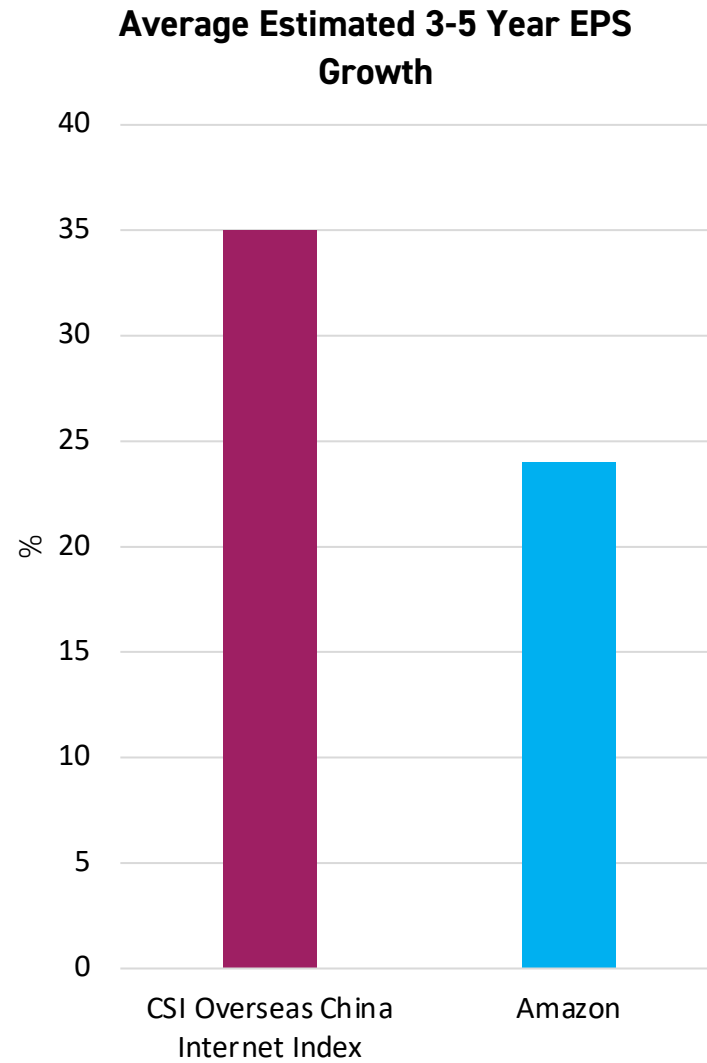
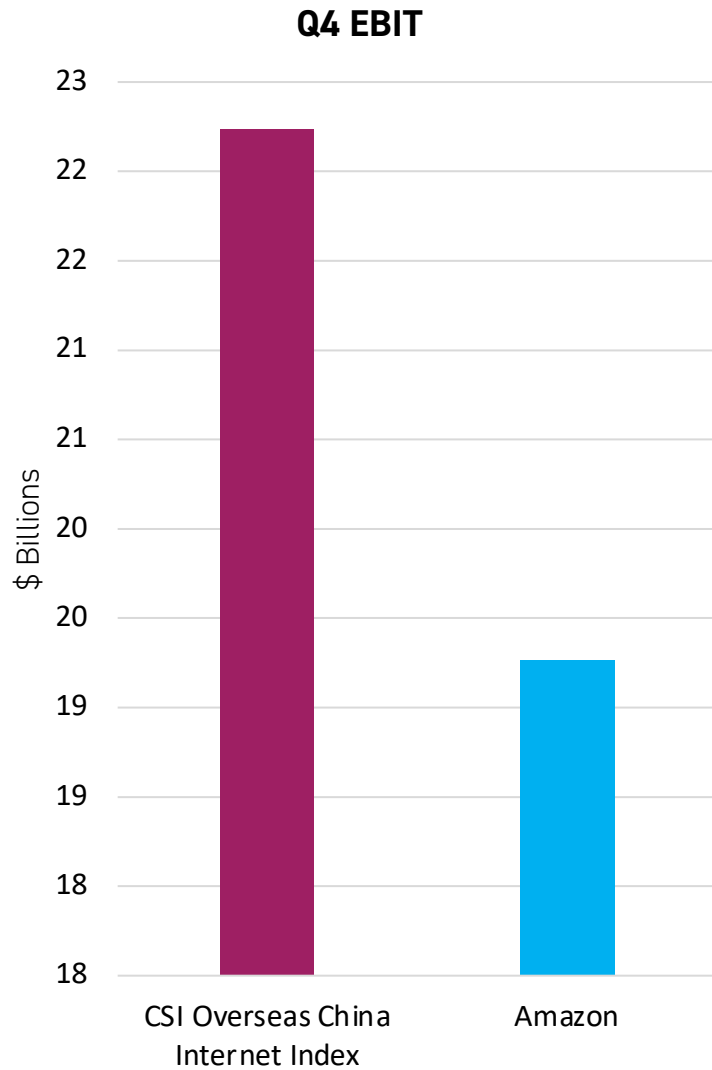
Market Capitalization

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Cash-on-hand

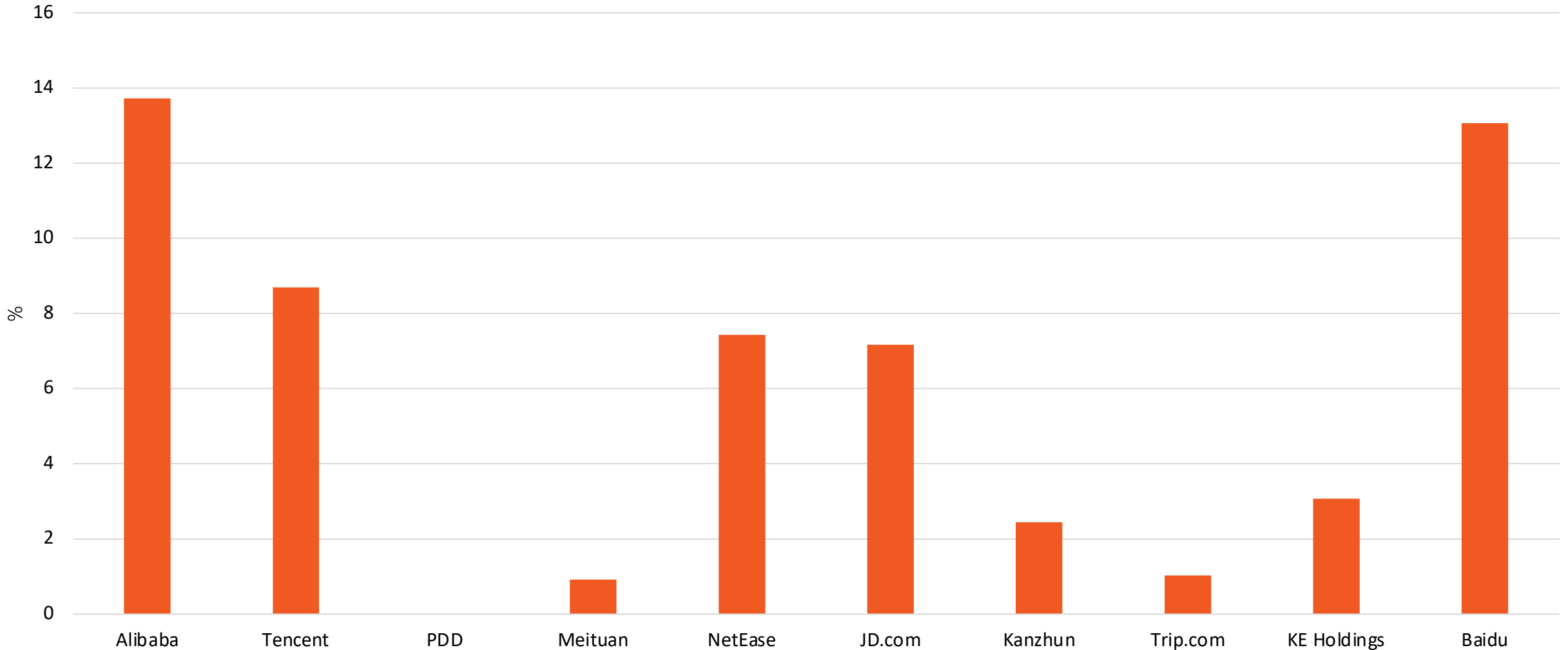


## CSI Overseas China Internet Index companies have higher earnings, average earnings growth, and average earnings growth estimates than Amazon



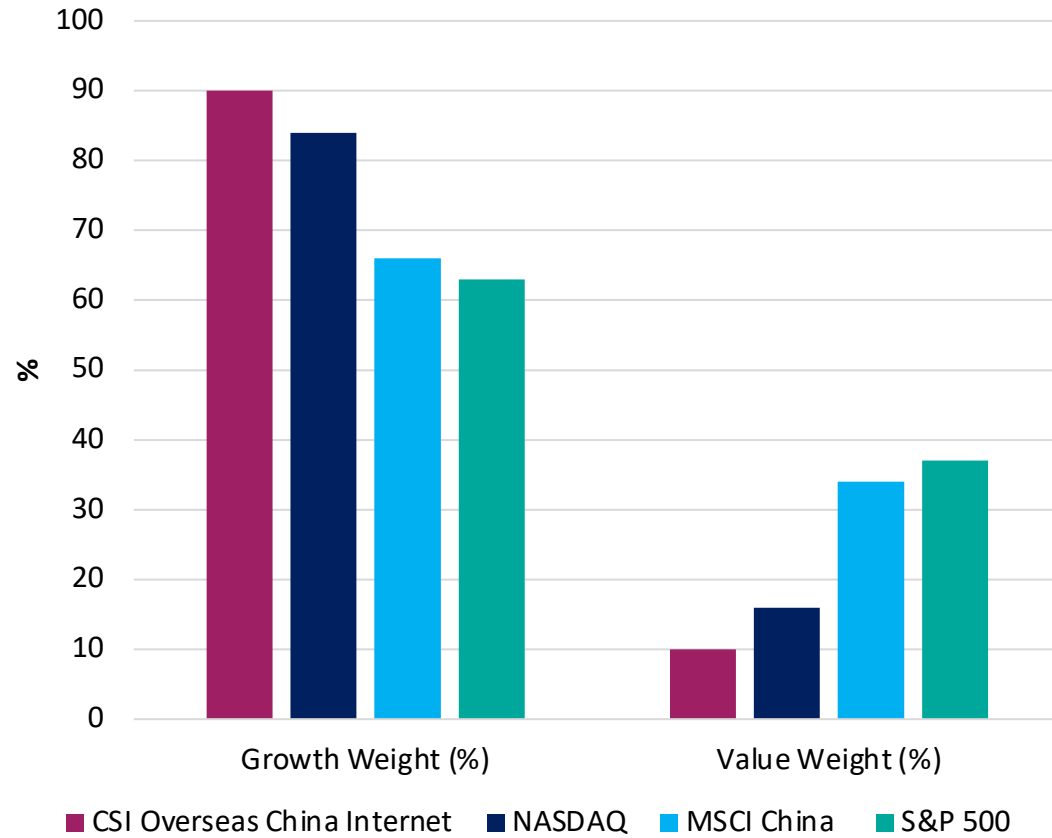
## CSI Overseas China Internet Index's top 10 companies have strong buyback policies

CSI Overseas China Internet Index's Top 10 Companies: Share Buyback Yield



## CSI Overseas China Internet Index's fundamentals continue to be attractive compared to broad China exposures and US stocks

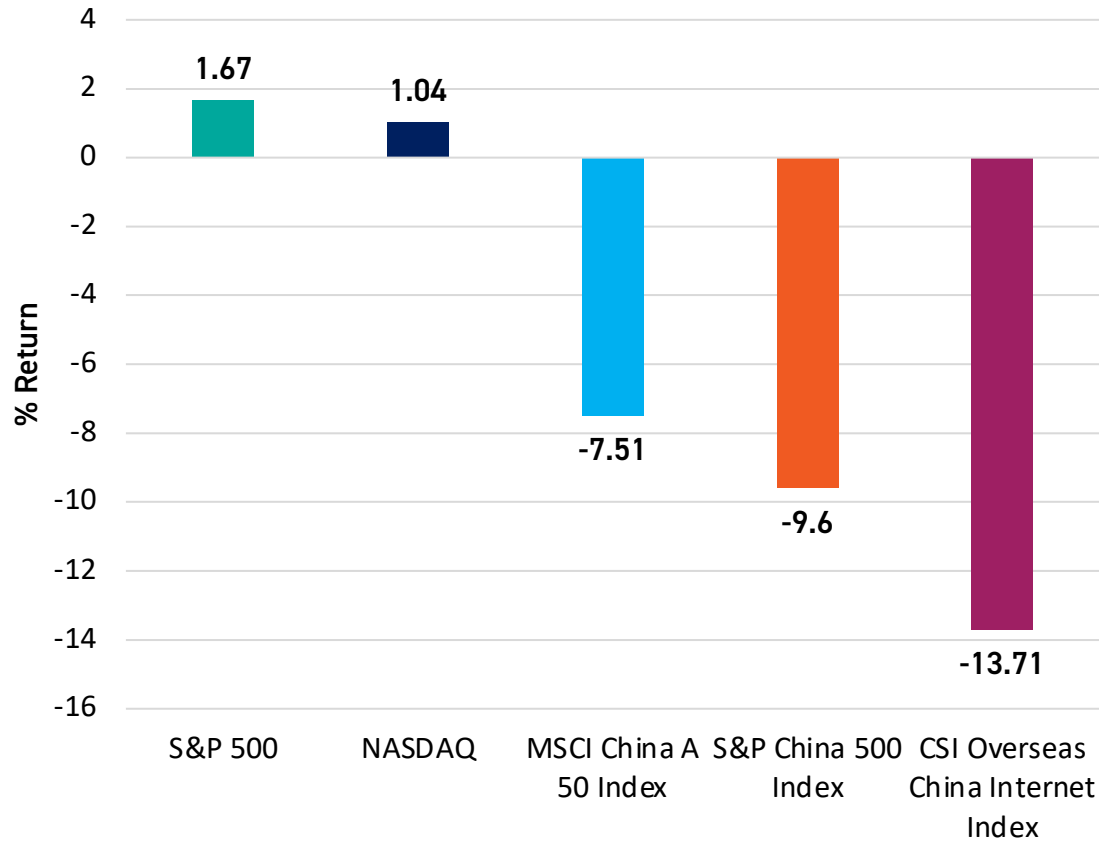
Growth vs. Value Breakdown (%)



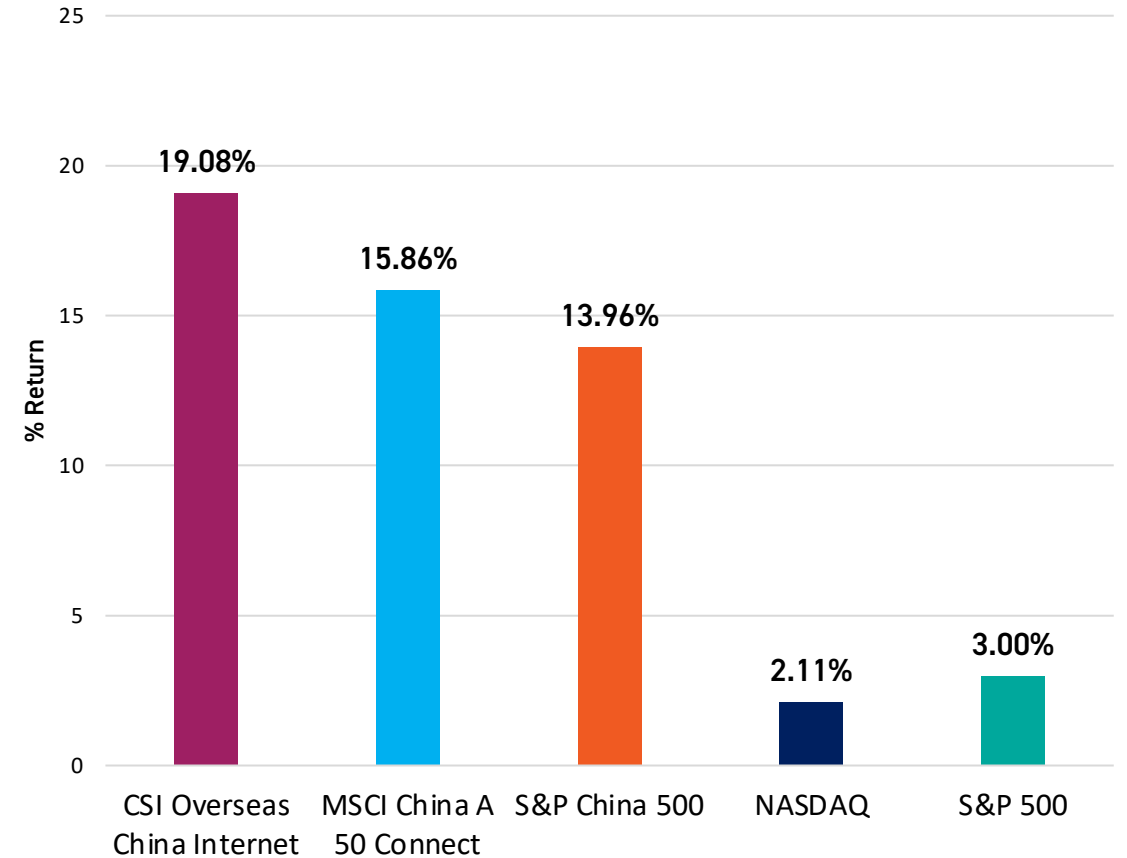
Name	CSI Overseas China Internet	NASDAQ	MSCI CHINA	S&P 500
Price/Earnings (P/E)	18	30	10	25
P/E using FY1 Est	14	25	10	21
Est 3-5 Yr. EPS Growth	28	16	17	14
PEG Ratio	0.6	1.5	1.2	2.5

## China's equity markets are rebounding

January (1/2/2024 - 1/31/2024)



February - April (2/1/2024 - 4/30/2024)



Data from Bloomberg as of 4/30/2024. Index returns are for illustrative purposes only. The performance data quoted represents past performance, and current returns may be higher or lower. Past performance does not guarantee future results. Please see the end of the presentation for definitions.



## Year of the Dragon (2024) Catalysts

- Q4 2023 Earnings Trough
- Shareholder Friendly: Buybacks, Dividends, IPOs, Spinoffs
- Amplification of pro-growth Policy Support in 2024 after a multitude of Monetary, Fiscal, Regulatory, and Key Events in 2023
- Investor sentiment is rising as 2023 policy support is beginning to reflect in China's markets
- Low Investor Positioning in China Equities
- Foreign Sentiment

## Watch List

- Potential regulations
- Geopolitical developments
- Investor sentiment



## Index & Term Definitions

**The CSI Overseas China Internet Index:** The CSI Overseas China Internet Index selects overseas listed Chinese Internet companies as the index constituents; the index is weighted by free float market cap. The index can measure the overall performance of overseas listed Chinese Internet companies. The Index is within the scope of the IOSCO Assurance Report as at 30 September 2018. The index was launched on February 7, 2012.

**Forward Price-to-Earnings (P/E):** Forward price-to-earnings (forward P/E) is a version of the ratio of price-to-earnings (P/E) that uses forecasted earnings for the P/E calculation. While the earnings used in this formula are just an estimate and not as reliable as current or historical earnings data, there is still benefit in estimated P/E analysis.

**MSCI Emerging Markets Index:** The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Market (EM) countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country. The index was launched on January 1, 2001.

**Gross Domestic Product (GDP):** Gross domestic product is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

**MSCI All Country World Index (MSCI ACWI):** MSCI ACWI is a stock index designed to track broad global equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index comprises the stocks of nearly 3,000 companies from 23 developed countries and 25 emerging markets.

**S&P 500 Index:** The S&P 500 is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States.

**Nasdaq Composite Index:** The Nasdaq Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange. Along with the Dow Jones Industrial Average and S&P 500, it is one of the premier US stock market gauges.

**MSCI EAFE Index:** MSCI EAFE an equity index which captures large and mid cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 795 constituents, the index covers approximately 85% of the free float- adjusted market capitalization in each country.

**Bloomberg Global Aggregate Index:** The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers. The index was launched on January 1, 1990.

**MSCI ACWI ex USA Index:** The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 developed markets countries (excluding the US) and 24 emerging markets (EM) countries. With 2,312 constituents, the index covers approximately 85% of the global equity opportunity set outside the US. The index was launched on January 1, 2001.

**Pledged Supplementary Lending (PSL):** Lending guaranteed by a central bank for a specific borrower or purpose.

**Medium Term Lending Facility (MLF):** The monetary policy tool provided by the central bank to provide medium-term base money.

**Reserve Requirement Ratio (RRR):** The amount of money that banks are required to hold on their balance sheets rather than lend out, expressed as a percentage of total assets.

**Open Market Operations (OMO):** Activity by central banks involving lending into the open market to guide the market interest rate toward its target.

## Index & Term Definitions (continued)

**MSCI China IMI Environment 10/40 Index:** The MSCI China IMI Environment 10/40 Index is designed to measure the performance of securities with country of classification as China comprising of large, mid and small market cap segments. The index was launched on August 23, 2017.

**CICC China Consumer Leaders Index:** The CICC China Consumer Leaders Index is designed to track the equity market performance of Chinese companies engaged in Consumer-Related Industries. The index was launched on June 1, 2020.

**MSCI China All Shares Health Care 10/40 Index:** The index provides targeted exposure to Chinese companies engaged in the health care sector. The Index is a free float-adjusted market capitalization-weighted index that includes companies listed in Mainland China, Hong Kong, and United States. The index was launched on October 25, 2017.

**Shanghai Stock Exchange Science and Technology Innovation (STAR) Board 50 Index:** The Index is comprised of the 50 largest companies listed on the SSE Science and Technology Innovation Board (STAR Market) as determined by market capitalization and liquidity. The index was launched on July 23, 2020.

**Hang Seng TECH Index:** The Hang Seng TECH Index represents the 30 largest technology companies listed in Hong Kong that have high business exposure to technology themes and pass the index's screening criteria. The index was launched on July 27, 2020.

**CICC China 5G and Semiconductor Leaders Index:** The Index is designed to track the performance of companies engaged in the 5G and semiconductor related businesses, including 5G equipment, semiconductors, electronic components and big data centers. The index was launched on November 16, 2020.

**MSCI China A 50 Connect Index:** The MSCI China A 50 Connect Index is constructed from the MSCI China A Index (the 'Parent Index'), a broad-based benchmark index which captures large and mid-cap China A shares listed on the Shanghai and Shenzhen exchanges and accessible through the Northbound Stock Connect channel. The index was launched on August 20, 2021.

**MSCI China All Shares Index:** The MSCI All Shares Index captures large and mid-cap representation across China A-shares, B-shares, H-shares, Red-chips, P-chips and foreign listings (e.g. ADRs). The index aims to reflect the opportunity set of China share classes listed in Hong Kong, Shanghai, Shenzhen and outside of China. The index was launched on June 26, 2014.

**Bloomberg China Treasury & Policy Bank 9% Capped Index:** The index is meant to track the government and policy bank bonds that are a focus in Bloomberg's China bond inclusion efforts, with single issues not to exceed 9% of the index. The index was launched on January 1, 2013.

**MSCI Global China Infrastructure Exposure Index:** The MSCI Global China Infrastructure Exposure Index is designed to represent the performance of listed companies within Developed, Emerging and Frontier markets with high revenue exposure to China infrastructure development from within a specified set of industries relevant to what has become known as the 'One Belt, One Road' ("OBOR") investment program and development strategy promoted by China. The index was launched on August 23, 2017.

**Bloomberg Electric Vehicles Index:** The Bloomberg Electric Vehicles Index aims to represent the performance of a set of companies that are expected to derive significant revenues from electric vehicles, energy storage technologies, lithium, cobalt and copper mining, and hydrogen fuel cells. The index was launched on May 31, 2017.

**MSCI China A Onshore Index:** The MSCI China A Onshore Index captures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The index was launched on May 10, 2005.

## Index & Term Definitions (continued)

**Solactive Emerging Markets Consumer Technology Index:** The Solactive Emerging Markets Consumer Technology Index is an Index of Solactive AG and is calculated and distributed by Solactive AG, with targeted exposure to emerging market consumer technology. The index was launched on August 23, 2017.

**MSCI Emerging Markets ex China Index:** The MSCI Emerging Markets ex China Index captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries\* excluding China. The index was launched on March 9, 2017.

**S&P Global Carbon Credit Index:** The S&P Global Carbon Index is designed to measure the performance of the global carbon credit market compliant with established UCITS guidelines. The index was launched on July 25, 2019.

**S&P Carbon EU Index:** The S&P Carbon EU Index is designed to measure the performance of the European Union Allowance credit market. The index was launched on August 23, 2021.

**S&P Carbon CA Index:** The S&P Carbon CA Index is designed to measure the performance of the California Carbon Allowance credit market. The index was launched on October 5, 2021.

**Value Line® Dynamic Core Equity Index:** The Value Line® Dynamic Core Equity Index introduces a market adaptive approach to investing in US large cap companies. The index was launched on November 24, 2020.

**CPI:** A consumer price index is a price index, the price of a weighted average market basket of consumer goods and services purchased by households. Changes in measured CPI track changes in prices over time. The CPI is calculated by using a representative basket of goods and services.

**Net income:** Net income, also called net earnings, is sales minus cost of goods sold, general expenses, taxes, and interest.

**Revenue:** The amount earned by a company by selling goods and services before the deduction of expenses.

**MSCI China A International Index:** The MSCI China A International Index captures large and mid-cap representation and includes the China A-share constituents of the MSCI China All Shares Index. It is based on the concept of the integrated MSCI China equity universe with China A-shares included. The index was launched on June 26, 2014.

**MSCI China A Inclusion Index:** The MSCI China A Inclusion Index is designed to track the progressive partial inclusion of A shares in the MSCI Emerging Markets Index over time. The index is designed for global investors accessing the A shares market using the Stock Connect framework and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH). The index was launched on October 23, 2017.

**MSCI China A Index:** The MSCI China A Index captures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The index covers only those securities that are accessible through "Stock Connect". The index is designed for international investors and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH). The index was launched on March 1, 2018.

## Index & Term Definitions (continued)

**MSCI China Index:** The MSCI China Index captures large and mid-cap representation across China A shares, H shares, B shares, red chips, P chips, and foreign listings (e.g., ADRs). With 703 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid-Cap A-shares represented at 20% of their free float-adjusted market capitalization. The index was launched on October 31, 1995.

**Correlation:** A measure of the degree to which two variables move in tandem with one another. Correlation is usually measured in coefficients, which range from -1 to 1, with negative values indicating an inverse relationship, positive values indicating a positive correlation, and a value of 0 indicating no correlation whatsoever.

**Loan Prime Rate (LPR):** A target interest rate set by the People's Bank of China that dictates what banks charge their most creditworthy customers. It also helps set mortgage rates.

**Warrants:** Warrants are derivatives that give the right, but not the obligation, to buy or sell a security—most commonly an equity—at a certain price before expiration.

**Callable Bull/Bear Contracts (CBBCs):** A derivative financial instrument that provides investors with a leveraged investment in underlying assets, which can be a single stock or an index. CBBCs are usually issued by third parties, mostly investment banks, but neither by stock exchanges nor asset owners.

**Hang Seng Index:** The Hang Seng Index is a free float-adjusted market capitalization-weighted index for Hong Kong's stock market. It is used to record and monitor daily changes of the largest companies listed in Hong Kong. The index was launched on November 24, 1969.

**Price-to-Earnings (P/E):** The P/E equals the price of a share of stock, divided by the company's earnings-per-share.



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